



MEMORANDUM

To: Michigan House Tax Policy Committee Members

From: Dan Papineau - Michigan Chamber of Commerce, Mike Johnston - Michigan Manufacturers Association, Brian Reardon - S-Corp Association, Jeff Wiggins - ABC Michigan, Micah Babcock - Small Business Association of Michigan, Steve Japinga - Lansing Chamber of Commerce

Date: December 4, 2018

Subject: Small Business Tax Parity

The Federal Tax Cuts and Jobs Act signed late last year, was one of the most comprehensive tax reform proposals in nearly 50 years. Since enacted, businesses and their tax professionals have been reviewing the full consequences of the reform. Depending on a business' type, size, class and other factors, the results of federal tax reform have proven to be very different from business to business.

While federal tax reform was extremely beneficial to some businesses, many received little, if any, benefit. In fact, many small businesses will see a dramatic tax increase under the new law. This is because smaller businesses are not usually taxed as "C" corporations but as "passthrough" entities, such as S corporations and partnerships. In the case of a passthrough, the taxable income of a business "passes through" to the individual owner where the owner pays personal income taxes on the income from their business.

There is a key difference between a passthrough business and a C corporation. For federal tax purposes, a C corporation can deduct the state taxes they pay; since passage of federal tax reform, a passthrough's individual owner's total state and local tax deduction, including property taxes, is limited to \$10,000. As a result, Michigan's nearly 250,000 passthrough businesses will pay 1.3-1.6% more in taxes than businesses taxed as a C corporation. It is easy to see the disparity in tax liability due to one sole reason: the way a business is legally organized.

To address this disparity, we support legislation that will allow a Michigan passthrough to elect into a Michigan state income tax regime that will impose a tax on the passthrough business entity and not the individual owner. This simple fix will once again allow Michigan passthrough owners to effectively deduct state income taxes in the determination of their federal tax liability, just like C corporations.

Please support tax parity for Michigan small businesses. This will help attract businesses from all over the country with no revenue loss to the state.